

**INTERNAL REVENUE SERVICE OVERSIGHT BOARD**  
**PUBLIC MEETING:**  
**FUTURE DIRECTION OF IRS TAX ADMINISTRATION AND TAXPAYER**  
**SERVICE**  
**January 29, 2002**

Mr. Chairman and other members of the IRS Oversight Board, the American Institute of Certified Public Accountants thanks you for the opportunity to appear before you today. I am Stephen R. Corrick, Vice Chair of the AICPA's Tax Executive Committee. Joining me today is James A. Dougherty, Chair of the AICPA's Relations with the IRS Committee. The AICPA is the national, professional organization of certified public accountants comprised of more than 330,000 members. Our members advise clients on federal, state, and international tax matters and prepare income and other tax returns for millions of Americans. They provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses. It is from this broad base of experience that we offer our comments today.

We are pleased to provide comments regarding how the IRS should direct its activities in the future and our observations on IRS progress in providing improved taxpayer service. Specifically, the Oversight Board has raised questions relating to (1) improving compliance, (2) reducing taxpayer burden, (3) improving operations, and (4) strengthening the IRS workforce.

**I. THE IRS BUDGET AND RRA 98'**

Before discussing specific programmatic issues related to the Internal Revenue Service, Congress must address the issue of the Service's budget for fiscal year 2003. In this regard, the AICPA urges the Oversight Board to support full funding of the fiscal year 2003 budget for the Internal Revenue Service.

Without sufficient funding, the IRS will not be able to adequately perform its job and taxpayers and practitioners will encounter additional problems and frustrations in their dealings with the IRS. Recently, the Taxpayer Advocate noted that taxpayers have inadequate access to IRS assistance. We believe any lack of budgetary support for the IRS will worsen this situation and could adversely affect individuals' attitudes towards participation in our voluntary compliance tax system. We are also concerned that the IRS' planned modernization of its equipment and electronic capabilities not be impeded. Steady progress on this front is absolutely essential to sound tax administration.

The AICPA is not commenting on the merits of specific dollar amounts or allocations in the budget proposal. Such issues require analysis beyond the scope of our review. The IRS performs an essential, although unpopular, role by collecting revenue needed to operate our government. To continue and to improve that activity, the IRS needs to be

provided with adequate funds. This is not to say that nothing else should be done. Indeed, to the extent problems exist within the IRS, reforms should be implemented and monitored. However, budget cuts should not be used to penalize the IRS.

Many AICPA members are tax practitioners. As such, we have seen first hand the problems caused by an IRS that is not responsive to the taxpaying public as customers. We also have seen the improvements initiated by Commissioner Rossotti, however, and have found them impressive. Reducing the IRS appropriation can only delay meeting the improvements that Congress expects and we believe the nation's taxpayers will suffer as a direct result.

The AICPA has long advocated that funding for the IRS must be sufficient for the Service to efficiently and effectively administer the tax laws and collect tax. We are pleased that one of the Oversight Board's top priorities will be acting as an advocate for the IRS budget since it is vital to our voluntary compliance tax system that the Service have the resources necessary to properly enforce the tax laws. When the IRS is, or appears to be, unable or unwilling to actively administer and enforce the tax law, serious damage to the effectiveness of our tax system results. Therefore, we encourage the Oversight Board to strongly support the IRS' budget needs, and vigorously promote that budget within the Treasury Department, on Capitol Hill and in the court of public opinion. Obviously, we expect the Service to identify rational ways to allocate any additional resources it receives over prior years, and the Oversight Board to ensure that those resources are properly utilized. We also believe the Board should pursue multi-year funding (i.e., budgeting for multiple years at once) to ensure stable funding for the IRS in the future.

The AICPA strongly supports the goals and objectives of the *IRS Restructuring and Reform Act of 1998* (RRA 98'). We believe the Act has resulted in improved taxpayer service, greater equity in the administration of the tax law, higher levels of productivity on the part of the Service's workforce, and further modernization of the IRS' computer systems. Since October 2000, the IRS has reorganized its structure through such changes as elimination of "districts" and "regions," and the replacement of much of the "old" IRS with 4 new operating divisions. The new operating divisions consist of the Large and Mid-Size Business Division (LMSB), the Small Business and Self-Employed Division (SB/SE), the Wage and Investment Division (W&I), and the Tax Exempt and Government Entities Division (TE/GE). Under this new structure, the IRS is organized conceptually around customer needs. Other functional units of the agency include Appeals, the Office of Taxpayer Advocate, Criminal Investigation, and Communications and Liaison.

The primary goals of these recent changes are to improve taxpayer service, increase compliance, and shrink the size of the agency "relative to the economy." The AICPA agrees with these positive goals for the Service and, thus, our comments will measure the evolving trends within the IRS in light of how successful the agency is in achieving these goals.

## II. IMPROVING COMPLIANCE

The AICPA's Relations with the IRS Committee has met with numerous IRS (reorganization) design teams over the last two years. These design teams have largely been commissioned to address the infrastructure for various operational facets of the LMSB, SB/SE, TE/GE and W&I Divisions, with a primary focus on making improvements for each respective operating division in the pre-filing, filing, and compliance processes. Unfortunately, it appears that while practitioners generally find the proposed modifications in the agency's structure (involved with the reorganization) to be conceptually positive, they are also finding IRS employees are having significant problems in the implementation of the proposed changes and, thus, the public does not yet appear to be realizing the benefits of the reorganization in practice.

We applaud IRS' efforts to put a greater emphasis on the pre-filing phase within these operating divisions. The purpose for placing more emphasis on the pre-filing phase is obvious. In testimony before a House Appropriations Subcommittee on May 2, 2001, Commissioner Rossotti stated "We want to shift from addressing taxpayer problems well after returns are filed to addressing them earlier in the process, and in fact preventing problems wherever possible. This approach is also much more cost-effective and goes hand-in-hand with improving our program delivery in filing and account assistance and compliance services."

The Pre-Filing Agreement and Industry Issue Resolution programs implemented by the LMSB Division are two excellent attempts to generate early resolution of issues -- one for individual business taxpayers and the other for segments of taxpayers. Other positive examples of IRS' new emphasis is their establishment of offices like the Stakeholder, Partnership, Education, and Communication Office (SPEC) in W&I and the Taxpayer Education and Communication Office (TEC) at SB/SE, and their broad commitment to improving communications through the use of web sites, conferences, and newsletters. The AICPA believes these are all very positive initiatives that should allow the IRS to focus its post-filing and compliance process within the four operating divisions on the most critical instances of noncompliance. However, in order for the IRS to be able to accomplish its objective in the pre-filing stage, it is important for Congress to appropriate the necessary funds to enable the IRS to fully staff the pre-filing and taxpayer assistance positions.

Enforcement remains an essential component of ensuring compliance and fairness to all taxpayers. We appreciate the IRS' quest to improve enforcement through initiatives with a broader concept of "enforcement" such as targeted education, improved and expanded information reporting; clearer guidance; and earlier intervention through voluntary agreements, coordinated issue resolution, clearer notices and increased use of telephonic communication -- in addition to traditionally direct enforcement activities.

In recent months IRS' operating divisions have announced highly positive programs striving to improve its use of enforcement. For example, the IRS released Notice 2001-67 in November 2001, a notice detailing the establishment of the Large and Mid-Size

Business Division's "Fast Track" dispute resolution. Under this program, LMSB and the Office of Appeals have put in place procedures enabling taxpayers and the IRS to expedite and resolve issues while a case remains within LMSB jurisdiction.

Another potentially positive program is the Small Business and Self-Employed Division's announcement to "reorganize" its examination function. This examination reorganization process stresses the utilization of consistent procedures, efficient inventory control of cases, and effective case management for the purpose of reducing the time spent by taxpayers and IRS personnel in the examination of a tax return.

While the AICPA supports the goals of the IRS design teams and the creation of positive programs, like LMSB's Fast Track dispute resolution and SB/SE's reorganization of the examination function, practitioners are finding that there is often a disconnect in communications between the IRS National Office (and senior-level officials within the operating divisions) with middle-management and rank-and-file IRS employees. That is, an operating division's senior management might announce programs that are conceptually highly positive, only to find implementation floundering once a program reaches the level of IRS middle-management and mainstream employees.

There remains considerable unevenness in the way various components of the IRS understand and implement the new structures and programs. In general there are many practitioners and IRS personnel who do not have a good grasp on how the overall IRS reorganization is supposed to work and there is even less consensus on how it is actually working. When an IRS employee in the field is unsure how to implement a new program or procedure, that person will invariably fall back on his or her old ways of doing things. The new structure, while designed to be flatter, also creates various challenges to IRS employees and the AICPA's membership since it is not always clear who actually has the authority to make certain decisions, especially where aspects of an issue or case involve more than one operating division and/or multiple Appeals or Counsel offices. Therefore, practitioners seem to continue to flounder in their attempts to determine where to go in the new IRS organization to resolve problems.

We are aware that the IRS is experiencing a higher than normal attrition rate among the agency's workforce, stemming from retirements among its baby-boomer generation and aging workforce. These retirements are clearly having an impact on the Service's ability to implement the reorganization, including the agency's ability to increase productivity among its employees overall. Replacement of these retirees with qualified staff over the next several years should amount to a major challenge for the IRS.

And for those IRS employees who may only be a few years from retirement, such personnel may pose the most difficult challenge of all for IRS executives. We appreciate the dilemma IRS senior management faces, as we believe senior management must be painfully aware of the difficulty it faces in convincing an employee nearing retirement to "buy-in" to any sort of program or cultural change implemented within the agency.

Making improvements in the training of IRS employees is one way of overcoming any cultural inertia among mid-level and rank-and-file personnel. The AICPA strongly supports such efforts. IRS executives must continue their resolve to hire and train new employees to replace its aging workforce. In this context, Section V of this statement (below) addresses some specific recommendations involving the IRS workforce. The remaining discussion within this Section II discusses other specific recommendations with respect to fostering IRS enforcement of the tax laws.

### IRS Audit Rate

Continuing reports about the extremely low audit rates and the lack of collection activity by the IRS are widespread. Last year, the IRS released statistics that continue to highlight the “steady erosion” in audit coverage, enforcement, and case closures. Perhaps the Service’s extremely low audit rate is the most telling statistic of all – the Service’s audit rate dropped to .49 percent in fiscal year 2000, down from a rate of approximately 1.68 percent in 1995. These statistics cannot begin to be reversed until the IRS has adequate funding for staff. We understand that examiners and revenue officers have been deployed to taxpayer service and other priorities due to operational priorities and insufficient staffing in those areas. However, it is vital to our voluntary compliance tax system that this lack of audit and collection activity be reversed immediately, and that the increase in enforcement be widely publicized. If the IRS is unable to actively administer and enforce the tax law, serious damage to the effectiveness of our tax system results. Those who normally flaunt the law will continue to do so at no risk; those who in the past have reluctantly complied only because of a fear of enforcement may become noncompliant; and, normally compliant taxpayers will lose faith in the system and may be tempted to become noncompliant as well. For our voluntary tax compliance system to operate effectively, taxpayers must perceive that everyone pays their fair share, and that if they do not do so voluntarily, they will be forced to do so by the IRS.

### Timely Published Guidance

One extremely important way of buttressing IRS enforcement resources more effectively is for the Service to make improvements in the published guidance it issues for taxpayers. All IRS guidance must be effective, clear and timely, and designed to promote a uniform understanding and consistent application of the tax laws. While we do not believe that the Oversight Board should be involved in the daily development of guidance, we do believe that the Oversight Board should do whatever is possible to encourage and ensure the publication of such guidance. We are encouraged by initiatives like the Industry Issue Resolution program and the accelerated guidance study currently underway by LMSB. The most effective guidance will be that which is not only formulated accurately and clearly, but also published timely.

### Inconsistent Treatment of Penalties

The IRS assesses numerous penalties, many of which are eventually abated upon the taxpayers’ showing of reasonable cause. This process is time consuming and costly for

both the IRS and taxpayers. In addition, the assessment and abatement process results in inconsistent treatment of taxpayers. Abatement practices vary from office to office and with personnel within the same office. Further, taxpayers without representation often do not receive abatements because they are unaware of even the opportunity to request abatements, much less the language necessary to establish reasonable cause.

It may be possible to achieve a more cost-effective and equitable outcome by establishing criteria for reducing assessments that are likely to be abated. We recommend that the IRS establish safe harbor provisions for a variety of penalties that would automatically be deemed to be reasonable cause for abatement. These provisions could be confined to late filing, late deposit, and certain information return-related penalties. The object would be to concentrate on those penalties that are regularly assessed and abated. Safe harbor provisions could take the form of:

- No penalty assessments for an initial occurrence; however, the taxpayer would receive a notice that a reoccurrence may result in a penalty;
- Automatic non-assertion or abatement based on a record of a certain number of periods of compliance; or
- Voluntary attendance at some type of educational seminar on the issue in question, as the basis for non-assertion or abatement.

Use of the safe harbor approach would encourage and create a vested interest in compliance, because a good history of compliance would automatically result in relief. Additionally, the likelihood of future abatements would diminish if the taxpayer has a history of non-compliance. Furthermore, a system of automatic abatements would reduce the time spent by the IRS and taxpayers on proposing assessments, initiating and handling correspondence, and subsequently abating a high percentage of penalties. However, we must note that regardless of the creation of any safe harbors, the ability to abate a penalty upon the showing of reasonable cause other than that in a safe harbor must continue to exist.

### K-1 Matching Program

The IRS is redirecting resources to the matching of taxpayer information with what is reported on Schedule K-1, Form 1065. This is being done because, as stated in January 2001 by Joseph Kehoe, Commissioner of the IRS Small Business/Self-Employed Division, up to 20 percent of income reported on Schedules K-1 may be going unreported.

In order to enable the Service to facilitate the matching process, the IRS is considering simplifying and revising the Schedule K-1. The AICPA would like to participate in any reengineering process related to the Schedule K-1. Furthermore, while the IRS intends to send the first notices related to this matching program by Summer 2002, the Service

maintains that all alleged taxpayer “discrepancies” will go through a manual screening by a tax examiner prior to a proposed notice being issued.

Taxpayers will not perceive that the new K-1 matching program is fair unless the IRS does an adequate job of reviewing the accuracy of the data obtained through the program. The program should be implemented slowly in order to avoid the wholesale issuance of erroneous notices. This is particularly important in light of the problems the IRS has reported with the electronic filing program of Form 1065 partnership returns. Finally, the AICPA has repeatedly offered to work with the IRS in its development of a K-1 matching program, and we continue to extend that offer.

#### IRS’ New National Research Program

On January 16, 2002, the IRS announced the National Research Program, a program designed to “*accurately* measure tax compliance while minimizing the need to contact taxpayers during the process.” According to the IRS, the program will enable the Service to establish better compliance initiatives for the purpose of more effectively catching tax cheating and encouraging all taxpayers to pay their fair share of tax. Also, the National Research program, as proposed, will measure filing compliance, payment compliance, and reporting compliance.

The AICPA will be closely watching the development of the new research program. We are well aware that the IRS has not updated its audit research tools for tax returns in more than 13 years. For this reason, the AICPA conceptually supports the development by the Service of new audit research tools to replace outdated audit formulas. To the extent a new research program can contribute to a reduction in the “tax gap” and yield a reduction in taxpayer burden over the longer term, we are supportive of such an approach. However, we are concerned about the creation of any research program that might once again result in time intensive, intrusive “line-by-line” audits of taxpayers. The AICPA stands ready to provide input to the IRS on the details and development of the new National Research Program and it encourages the IRS to implement its research initiative in as transparent a manner as possible. It is important that taxpayers and their representatives know as much as possible about the program, thereby reducing the likelihood that the effort will be subjected to the emotional and political barrages that have occurred in the past

We will be watching to see that a more “flexible approach” is in fact utilized by IRS Revenue Agents and Auditors working under the National Research Program. We are encouraged that Commissioner Rossotti has stated the IRS will “put much of the burden on the IRS to do our own research before we go taking information [under the program] from the taxpayer.”

### **III. REDUCING TAXPAYER BURDEN**

#### Tax Law Simplification

For many years, the AICPA has been outspoken with respect to the need to reduce tax law complexity; and we believe that it is appropriate for the Oversight Board to join us in this very important fight, particularly since the Board is in a unique position to identify and support simplification proposals. We also believe strongly that Congress should be more conscious of the administrability of new Internal Revenue Code provisions and the appropriateness of their effective dates. Congress already recognized, through the passage of the *IRS Restructuring and Reform Act of 1998*, that the Service can play a constructive role and provide an independent view on the administrability of pending legislation. We also believe that the Oversight Board should speak-out forcefully on the administrability of tax legislative proposals, thereby raising Congress' awareness of the difficult task it imposes on the Service as it continues to enact complex tax laws.

#### National Taxpayer Advocate

Likewise, we believe that the Oversight Board must support the Office of the National Taxpayer Advocate to the greatest extent possible. The creation of the Office of the National Taxpayer Advocate has been an important and valuable addition to tax administration in this country. Since its creation in 1998, the National Taxpayer Advocate Office has played a critical role in identifying and addressing systemic problems as well as resolving specific taxpayer issues. We strongly believe that the support of the Oversight Board for the Advocate can reap tremendous gains in terms of taxpayer confidence, improved tax administration and congressional awareness. As an example, the Taxpayer Advocate's Annual reports must become something more than a pro-forma exercise that generates pages of recommendations but inspires no actual change. Furthermore, we believe that the National Taxpayer Advocate's independence can be greatly enhanced and strengthened as a result of this support. In the current IRS state of reorganization there are many instances in which the Advocate Service can help bridge gaps and overlaps in the four division structure.

#### Electronic Tax Administration

We are concerned about electronic tax administration in general, and electronic filing (ELF) in particular. While we have supported and continue to support the IRS' long range goals regarding the conversion of manual processes to electronic format, we have been frustrated in the IRS' response to our attempt both to partner with the IRS in promoting ELF to our membership and in explaining to the IRS the effects of the current limitations of the systems on our constituency. In fact, as the Service shifts its focus from the electronic filing of individual returns to the electronic filing of business returns, involving, listening to, and responding to the various stakeholder groups will be all the more critical. Unfortunately, our experience as a stakeholder group in this matter has not been positive to date. Nonetheless, we look forward to being a positive partner in the ELF system and to that end have recently formed an Electronic Filing Task Force. At



their recent initial meeting they discussed the many hurdles on the road to achieving the goals established for the electronic filing program by Congress. For example, last year's struggles to implement the mandated electronic filing of large partnerships ought to provide a "road map" of things to avoid in future implementations. As we enter the second year of this mandate there remain many circumstances in which a related schedule or form must be supplied to the IRS on paper – sometimes triggering the entire Form 1065 to be filed on paper. The IRS and its constituencies can definitely improve on future electronic initiatives, but only if the collaboration begins early and is truly valued by the IRS.

#### Representatives and Proper Notice from the IRS

The IRS should establish administrative systems to assure that the proper taxpayer's representative receives notices directly from the IRS. Also, practitioners should be allowed to discuss a notice, and its related account, with the IRS through the use of a Personal Identification Number ("PIN") on notices sent to taxpayers.

Under present law, the IRS has developed a "Third Party Designee" program that was made effective for tax year 2000 for all Form 1040 series returns. This program was formerly referred to as the Checkbox Initiative. Under this program, the taxpayer "checks-off" a third party authorization on his or her Form 1040; thereby indicating the taxpayer's desire to allow the IRS to discuss the tax return with the preparer while the return is being processed. The IRS has expanded this Third Party Designee Program to include the designation of friends and family members, and has further expanded the program by making the designee program available for certain other tax forms.

The AICPA regards the Checkbox Initiative as a good first step. Our experience and IRS records show that the processing of notices during the return perfection and processing phase is a significant workload factor. Therefore, if a practitioner is authorized to discuss a notice and the related account with the IRS (through the availability of a PIN on the notice sent to the taxpayer), the AICPA believes the availability of the PIN would result in workload reductions for the IRS and practitioners.

This proposal would require that a PIN be placed on each notice sent to a taxpayer such that if the taxpayer wants their practitioner to contact the Service on their behalf, the PIN will authorize the Service to discuss the matter with that practitioner. This would be particularly important if the practitioner who is asked to resolve the matter is someone other than the preparer of the original return.

#### Utilizing Recent Technological Advances To Communicate with Taxpayers

Another area of concern is the need for adequate funding for appropriate electronic communication. The AICPA fully supports the availability of electronic communication between the IRS, taxpayers and tax practitioners.

The AICPA recommends the IRS dramatically expand its use of e-mail and fax transmissions instead of regular mail for communicating with taxpayers. In this regard, we recommend that legislation be proposed that would provide for use of an alternative delivery system where current law requires use of regular mail.

#### **IV. IMPROVING OPERATIONS**

##### Liaison Activities with Stakeholders

We strongly endorse all initiatives by the IRS to foster its liaison activities with the practitioner community and other outside stakeholders and advisory groups. We view such interactions to be a critical element in the Service's future. Particularly in this period of such great structural and process change, practitioners offer the Service a ready source of practical experience and insight gained through their encounters with the new IRS structures, people, and procedures. Likewise, we believe that it is critical for the Oversight Board to interact as often as possible with these outside groups. Today's hearing is a clear indication of the Board's strong interest in reaching out to the stakeholder community.

##### Modernization

The IRS' modernization is clearly still in transition and there is much work yet to be done. We believe that the Oversight Board should be involved in this continuing reorganization, particularly as the Service focuses on the many issues that continue to arise as a result of the modernization, and the many transitions still to occur. For example, it is extremely important that the ongoing transition of the Service Center workflow appear as seamless as possible to the American taxpaying public.

The AICPA also believes that special emphasis should be placed on the development of clear and effective lines of communication and policy coordination among the four operating divisions, including a mechanism to appropriately and timely resolve the inevitable common issues that will arise as each of the four operating divisions meets the needs of its customers. Clearly, the Oversight Board must work to ensure that taxpayers are treated consistently across the operating division lines. Furthermore, the IRS must work harder to avoid the confusion taxpayers are experiencing in dealing with the day-to-day ramifications of the reorganization. For example, there are still numerous practical questions arising with respect to whom taxpayers should approach for specific types of interactions that previously would have occurred with a District Director, District Counsel or Service Center Director that was responsible for all such matters within a specific geographic area. Also, taxpayers appear confused as to which address to use for sending in estimated tax payments or for the filing of tax returns. This constant change in addresses (e.g., where to file) results in confusion and inefficiency for both taxpayers and practitioners.

In some instances the Internal Revenue Manual, tax forms, and/or instructions have been revised to reflect the impact of the IRS restructuring, but in many cases these documents do not yet reflect all the changes. In other instances, changes in a new division's operating procedures raise questions that concern taxpayers and their representatives. One such change has recently occurred in the procedures employed by the IRS to obtain an accountant's work papers in connection with a specific audit. Prior IRM guidance clearly spelled out (1) when it was appropriate for an individual agent to request such work papers and (2) that management approval was required before the agent was permitted to submit the request to the taxpayer. Although the IRS has stated that it intends no change in policy in this area, current IRM guidance eliminates the need for management approval of these requests, thereby raising concerns about how this provision will actually be applied. Many other practical questions arise for which the individual taxpayer or practitioner has no ready access to answers or explanations. In addition to continuing its broad liaison efforts, we urge the IRS to expand its use of bulletin boards, e-mail boxes and other devices that allow the practitioner community to raise the nitty-gritty practical issues it confronts in dealing with the restructured IRS.

#### Access to Taxpayer Accounts

We are all familiar with the IRS' difficulties with computer modernization, which continues to inhibit IRS employees from efficiently accessing taxpayer accounts. For example, taxpayers and practitioners continue to have problems accessing information involving a taxpayer's estimated tax payments. This example is in clear contrast to the ability of financial institutions to access customer financial transactions immediately based on up-to-the minute data regarding that customer. The IRS reported last year that it could take up to 16 days to make an adjustment to a taxpayer's account due to incompatible computer systems within the IRS, a scenario that would not be tolerated by any private company.

By implementing even modest improvements in access to taxpayer accounts, the public would likely realize a significant reduction in what would be considered needless correspondence between taxpayers and the IRS. The IRS must continue to make improvements in its telephone service with the public, with the ultimate goal of providing "one stop shopping" for taxpayers thereby enabling them to resolve all of their problems with a single IRS representative.

Besides modernization of IRS computers, the AICPA urges the IRS to develop ways for their employees to be able to access taxpayer information over the Internet over secure, privacy-protected connections. Taxpayers should similarly be able to view their own tax account information over the Internet over secure, privacy-protected connections.

#### Difficulty in Contacting Specific IRS Employees

Many practitioners are experiencing problems with contacting specific IRS employees. We have been informed about numerous situations where Revenue Officers will not give out their office telephone number to taxpayers. Under a typical scenario, a Revenue

Officer might “telecommute” and thus, never be found in the local IRS office. Moreover, this IRS employee’s telephone message might list a pager and a telephone number to call to leave a voice mail message, and the message may also state he will call the taxpayer back as soon as possible. Unfortunately, under this scenario, the taxpayer or his practitioner finds it greatly difficult to contact the Revenue Officer. In order to counteract this type of scenario, we believe all “front-line” IRS employees should be required to provide his or her manager’s name and telephone number as part of that IRS employee’s voice mail message.

### Employer Identification Numbers

The AICPA submitted a letter last year to National Taxpayer Advocate Nina Olson detailing the difficulties taxpayers were encountering in obtaining Employer Identification Numbers from IRS Service Centers. In brief, we stated that the process for obtaining EINs was not functioning efficiently. We informed the IRS about problems taxpayers were having with submitting Forms SS-4, Application for Employer Identification Number, to the Service through the use of the Tele-TIN system and by fax.

Our letter last year recommended that the IRS (1) increase the number of hours that the call-in procedure is available each day and (2) permit taxpayers to leave messages that the Service will return to help facilitate the assignment of the EIN. Further, we suggested that the Service acknowledge faxed EIN requests and assign an EIN within a specified period of time.

In response to the concerns of the AICPA and other practitioner groups, the IRS announced a few months ago that beginning on December 1, 2001, a practitioner could obtain an EIN on a client’s behalf by completing the new Third Party Designee section and getting the client’s signature on Form SS-4. This procedure eliminated the need to obtain a separate Form 2848, Power of Attorney and Declaration of Representative, from the client. We believe this new procedure is positive and constructive.

Also, the IRS announced a few months ago that, beginning on January 2, 2002, taxpayers and practitioners could obtain EINs by calling one toll-free number or they could fax EIN requests 24 hours a day, seven days a week. Since the implementation of this program on January 2, taxpayers and practitioners have experienced significant busy signals as taxpayer demand has exceeded the IRS’ capacity to answer calls. Moreover, we are receiving complaints that taxpayers are not receiving EIN numbers in a timely fashion from the IRS as a result of requests sent in by fax or mail.

The IRS has announced this month that they are working to redirect personnel to ensure that EIN requests are responded to in a timely fashion and to ensure that any EIN application backlog is eliminated. While we commend the IRS for acknowledging the problems associated with its EIN program, we must point out the extreme urgency in fixing the EIN program immediately due to its impact on the growth of small businesses and on the overall tax administration process.

Notice 2000-19 states that the Service is temporarily waiving the signature requirement for Forms SS-4 as part of a program to eventually permit the filing of the form by magnetic media and other electronic means. Consistent with the long-term objectives spelled out in the Notice, the AICPA recommends that the Service permit the Internet filing of Forms SS-4 and the assignment of EINs by Internet as well.

We also note that the IRS has entered into a pilot program with the Oklahoma Tax Commission through which taxpayers may “walk-through” their request for an Employer Identification Number, enabling taxpayers to receive the EIN immediately. To be eligible, the taxpayer must apply for the EIN at either of the two Oklahoma Tax Commission offices in Oklahoma City. A taxpayer’s representative can also participate in the program with a Form 2848, Power of Attorney and Declaration of Representative, and the SS-4. The AICPA believes this joint program with Oklahoma to be a very positive initiative and encourages the Service to both expand the program to all states and to make it permanent

#### Practitioner Hotline

The IRS announced in Fall 2001 the agency’s plans to modify the practitioner hotline process. In announcing these changes, the Service renamed the program the “Practitioner Priority Service.” The IRS promotes the new program as the first point of assistance regarding taxpayers account related issues, utilizing toll free lines since the program’s introduction on January 2, 2002. The IRS believes this new program will offer practitioners an opportunity to obtain fast, accurate, consistent, and comprehensive answers from IRS employees who are specially trained to handle practitioners’ account related questions, with toll free availability from 7:30 a.m. to 5:30 p.m. local time.

We have begun to receive complaints from practitioners who have consistently experienced busy signals when calling the toll free telephone line for the Practitioner Priority Service as practitioner demand has exceeded the IRS’ ability to answer calls. It is imperative for the IRS to address the problems associated with the new program. A viable and prompt response to current problems surrounding the Practitioner Priority Service program could be the difference between a successful or failed 2002 filing season.

### **V. STRENGTHENING THE IRS WORKFORCE**

The recruitment, development and retention of a quality workforce is essential and we commend the Service’s recent recruitment of senior executives from outside the Service. In our experience, when these new executives are partnered with executives who have been developed internally and have critical institutional knowledge, effective leadership has been the result. We are also encouraged by the quality of the outside technical experts that are being brought into various positions within the four new organizations. We believe that the Oversight Board should continue to encourage the recruitment of senior executives and technical specialists from outside the Service.

Training of IRS personnel is critical, and we encourage the Oversight Board to ensure that the necessary resources are devoted to the learning and education function. Some of the most frustrating experiences realized by taxpayers and tax practitioners in dealing with the IRS occur because of a lack of training on the part of the IRS employees involved. It is much easier to work out a solution that is fair to both the tax system and the taxpayer if the individuals resolving the issue are knowledgeable and well trained. Given the “taxpayer segmented” nature of the new organization, it is more important than ever that IRS employees acquire the technical skills and insight that corresponds to the needs and issues of their separate taxpayer constituencies. We urge the Board to seek the funds necessary for the proper training of the Service’s entire workforce.

We support full funding for the IRS’ staffing tax administration for balance and equity program (STABLE), the initiative to increase IRS staffing to the agency’s mid-1990s levels. The STABLE initiative is designed to provide the IRS with the proper funding to hire the additional employees needed to strengthen the tax compliance and customer service functions of the Service. We continue to applaud the STABLE initiative as a means to achieve a balance between taxpayer service and enforcement. We believe both are necessary for effective tax administration.

In addition to full funding for STABLE, we believe the IRS should conduct a study of the salary/grade level structure currently in place for agency employees. Such a study should take into account the salaries for comparable employees in other federal agencies, as well as the salaries of employees in comparable private sector positions. This is particularly important given the tightness in the job market for accounting graduates. The IRS should consider increasing the Service’s exposure on college campuses, and the possible introduction of an advertising campaign about agency job openings.

## **VI. CONCLUSION**

The AICPA is encouraged by today’s public meeting of the IRS Oversight Board. The Oversight Board has our strong commitment to work closely with the Board and the IRS in obtaining proper funding and operational improvements for the IRS for the coming years. We are optimistic that, with the proper plan and funding levels in place, the IRS can achieve an appropriate balance between taxpayer service and enforcement.

While we are supportive of the IRS’ initiatives involved with the reorganization, we believe much work remains to be done to achieve the desired effects of reorganization for America’s taxpayers and the tax administration overall. It is our hope that this public meeting will serve as the catalyst for spurring positive improvements in IRS enforcement procedures, reducing taxpayer burden, improving the overall operations of the Service, and strengthening the IRS workforce. We appreciate this opportunity to offer our comments to you and would be happy to discuss any of these matters in further detail with the members of the IRS Oversight Board.